Chapter 1

1. In economics, choices must be made because we live in a world of
A) unemployment.
B) scarcity.
C) greed.
D) unlimited resources.

2. Where do economic agents such as individuals, firms, and nations interact with each other?
A) in public locations monitored by the government
B) in any arena that brings together buyers and sellers
C) in any physical location where people can physically get together for selling goods, such as shopping malls
D) in any location where transactions can be monitored by consumer groups and taxed by the government

3. Economists assume that rational people do all of the following except
A) use all available information as they act to achieve their goals.
B) undertake activities that benefit others and hurt themselves.
C) weigh the benefits and costs of all possible alternative actions.
D) respond to economic incentives.

4. In economics, the term ________ means "additional" or "extra."
A) allocative
B) marginal
C) equity
D) optimal

5. The three fundamental questions that any economy must address are:
A) What will be the prices of goods and services; how will these goods and services be produced; and who will receive them?
B) What goods and services to produce; how will these goods and services be produced; and who receives them?
C) Who gets jobs; what wages do workers earn; and who owns what property?

6. Society faces a trade-off in all of the following situations except
A) when deciding who will receive the goods and services produced.
B) when deciding what goods and services will be produced.
C) when deciding how goods and services will be produced.
D) when some previously unemployed workers find jobs.

7. The principle of opportunity cost is that

A) in a market economy, taking advantage of profitable opportunities involves some money cost.
B) the economic cost of using a factor of production is the alternative use of that factor that is given up.
C) taking advantage of investment opportunities involves costs.
D) the cost of production varies depending on the opportunity for technological application.

8. The production possibilities frontier shows the ________ combinations of two products that can be produced in a particular time period with available resources.

A) minimum attainable
B) maximum attainable
C) only
D) equitable

9. The attainable production points on a production possibilities curve are

A) the horizontal and vertical intercepts.
B) the points along the production possibilities frontier.
C) the points outside the area enclosed by the production possibilities frontier.
D) the points along and inside the production possibility frontier.

10. In a production possibilities frontier model, a point ________ the frontier is productively inefficient.

A) along

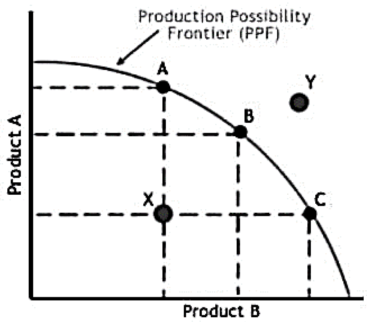
B) inside

C) outside

D) at either intercept of

Question (11)

What is the production possibilities frontier? What do points along the frontier represent? What do points inside and outside the frontier represents?



Solution

The production possibility frontier (PPF):

➔ It is a diagram shows the best possible ways of producing or selecting between two goods

➔ **<u>Each point on the curve is efficient,</u>** the society is using the resources efficiently and shows the maximum production of the 2 goods (A-B)

➔ **<u>Any point inside the curve is inefficient,</u>** because the society has the chance to produce more of the two goods (X)

➔ **<u>Any point outside the curve is unattainable,</u>** not possible because it exceeds the capacity of the economy (Y)

<u>Question (12)</u>

Table 2-4

Possible Output Combinations	Apples (thousands of pounds)	Pears (thousands of pounds)
A	70	0
B	60	20
C	50	36
D	40	48
E	30	56
F	20	60
G	10	63
H	0	65

12. Graph The Fruit Farm's production possibilities frontier. Put apples on the horizontal axis and pears on the vertical axis. Be sure to identify the output combination points on your diagram.

b. Suppose The Fruit Farm is currently producing at point *D*. What is the opportunity cost of producing an additional 8,000 pounds of pears?

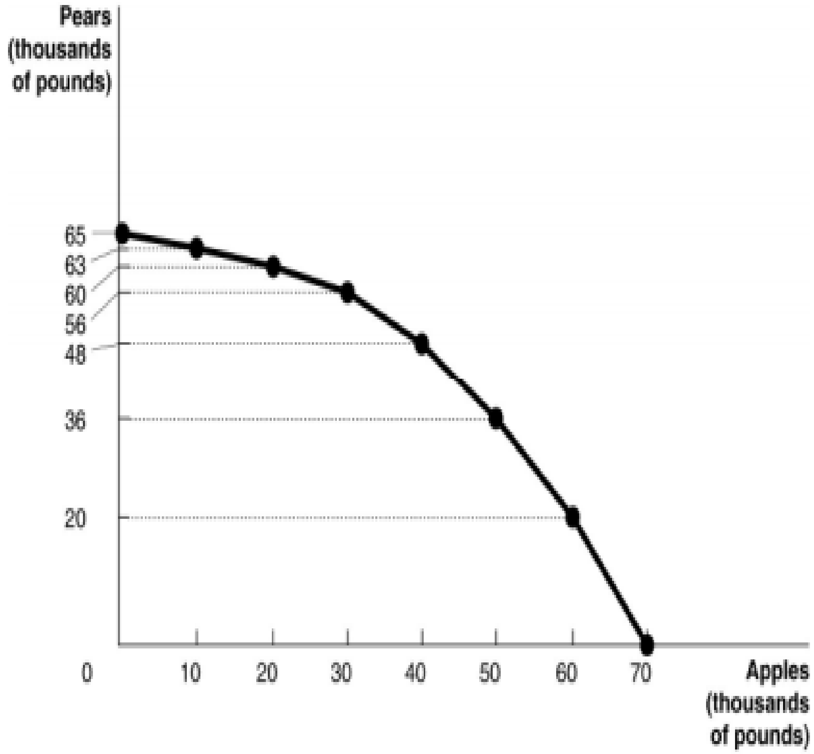
c. Suppose The Fruit Farm is currently producing at point *D*. What happens to the opportunity cost of producing more and more pears? Does it increase, decrease, or remain constant? Explain your answer.

d. Suppose The Fruit Farm is currently producing at point G. What happens to the opportunity cost of producing more and more apples? Does it increase, decrease, or remain constant? Explain your answer.

e. Suppose The Fruit Farm is plagued by the apple maggot infestation which destroys apple trees but not pear trees. Show in a graph what happens to its PPF

Answer:

a.

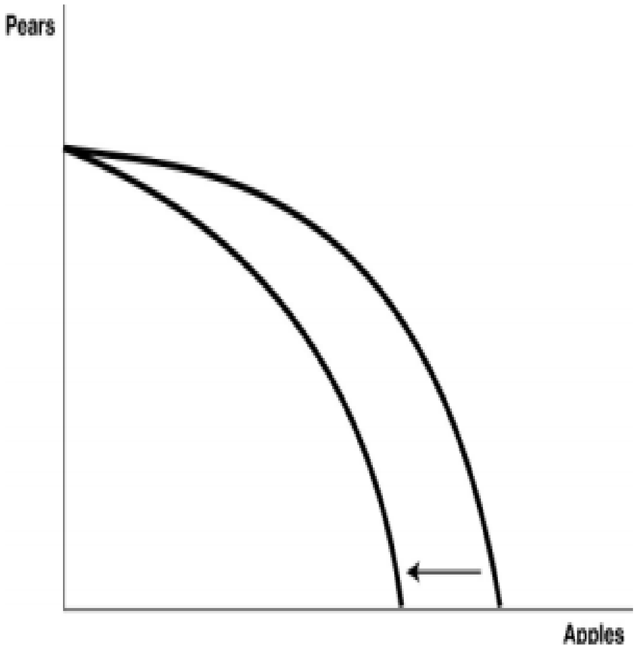


b. 10,000 pounds of apples

c. It increases. For example to move to *E*, The Fruit Farm has to give up 10,000 pounds of apples to produce an additional 8,000 pounds of pears. For each additional 10,000 pounds of apples foregone, the payoff in terms of pears gets progressively smaller.

d. It increases. Each time it wants to produce an additional 10,000 pounds of apples, more and more pears must be given up.

e.



Chapter 2

1. What is the difference between an "increase in demand" and an "increase in quantity demanded"?

A) There is no difference between the two terms; they both refer to a shift of the demand curve.

B) An "increase in demand" is represented by a rightward shift of the demand curve while an "increase in quantity demanded" is represented by a movement along a given demand curve.

C) There is no difference between the two terms; they both refer to a movement downward along a given demand curve.

D) An "increase in demand" is represented by a movement along a given demand curve, while an "increase in quantity demanded" is represented by a rightward shift of the demand curve.

2. The demand by all the consumers of a given good or service is the ________ for the good or service.

A) market demand

B) quantity demanded

C) law of demand

D) scheduled demand

3. The law of demand implies, holding everything else constant, that as the price of bagels increases,

A) the quantity of bagels demanded will decrease.

B) the demand for bagels will decrease.

C) the quantity of bagels demanded will increase.

D) the demand for bagels will increase.

4. Holding everything else constant, an increase in the price of MP3 players will result in

A) a decrease in the quantity of MP3 players supplied.

B) a decrease in the demand for MP3 players.

C) an increase in the supply of MP3 players.

D) a decrease in the quantity of MP3 players demanded.

5. Which of the following will shift the demand curve for a good?

A) a change in the technology used to produce the good

B) an increase in the price of the good

C) a decrease in the price of a complementary good

D) a decrease in the price of the good

6. If the price of grapefruit rises, the substitution effect due to the price change will cause

A) a decrease in the demand for grapefruit.
B) a decrease in the demand for oranges, a substitute for grapefruit.
C) a decrease in the quantity of grapefruit demanded.
D) a decrease in the quantity of grapefruit supplied.

7. If the price of automobiles was to increase, then

A) the demand for gasoline would decrease.
B) the demand for gasoline would increase.
C) the supply of gasoline would increase.
D) the quantity of gasoline demanded would decrease.

8. What are the two effects that explain the law of demand? Briefly explain each effect.

- **Substitution effect,** when the price of one good increase, the buyers tend to substitute other similar good for it.
- **Income effect,** when the prices of goods increase while the consumers' does not increase, people will buy less of the goods.

9. A supply schedule

A) is a table that shows the relationship between the price of a product and the quantity of the product supplied.
B) is a curve that shows the relationship between the price of a product and the quantity of the product supplied.
C) is the relationship between the supply of a product and the cost of producing the product.
D) is a table that shows the relationship between the price of a product and the quantity of the product that producers and consumers are willing to exchange.

10. What is the difference between an "increase in supply" and an "increase in quantity supplied"?

A) There is no difference between the two terms; they both refer to a shift of the supply curve.
B) There is no difference between the two terms; they both refer to a movement along a given supply curve.
C) An "increase in supply" means the supply curve has shifted to the right while an "increase in quantity supplied" means at any given price supply has increased.
D) An "increase in supply" means the supply curve has shifted to the right while an "increase in quantity supplied" refers to a movement along a given supply curve in response to an increase in price.

11. Which of the following would cause a decrease in the supply of milk?
A) an increase in the price of cookies (assuming that milk and cookies are complements)
B) a decrease in the price of milk
C) an increase the price of a product that producers sell instead of milk
D) an increase in the number of firms that produce milk

12. Ranchers can raise either cattle or sheep on their land. Which of the following would cause the supply of sheep to increase?
A) an increase in the price of sheep
B) a decrease in the price of cattle
C) an increase in the demand for cattle
D) an increase in the price of sheep feed

13. What is the difference between a supply schedule and a supply curve?
- **Supply schedule:** A table that shows how the quantity supplied of the good varies with the prices
- **Supply curve:** Represents the relationship between market price of a good and quantity supplied of it holding other thing constant

14. Which of the following is the correct way to describe equilibrium in a market?
A) At equilibrium, demand equals supply.
B) At equilibrium, quantity demanded equals quantity supplied.
C) At equilibrium, market forces no longer apply.
D) At equilibrium, scarcity is eliminated.

15. At a product's equilibrium price
A) the product's demand curve is the same as the product's supply curve.
B) the quantity of the product demanded is greater than the quantity of the product supplied.
C) the quantity of the product demanded is less than the quantity of the product supplied.
D) the product's demand curve crosses the product's supply curve.

16. Which of the following is evidence of a surplus of bananas?
A) Firms raise the price of bananas.
B) The price of bananas is lowered in order to increase sales.
C) The equilibrium price of bananas rises due to an increase in demand.
D) The quantity of bananas demanded is greater than the quantity supplied.

Question (17)

Table 3-3

Price per Bushel	Quantity Demanded (bushels)	Quantity Supplied (bushels)
$3	36,000	0
6	30,000	3,000
9	24,000	6,000
12	19,000	10,000
15	15,000	15,000
18	10,000	21,000
21	7,000	28,000
24	4,000	36,000

17. What are the equilibrium price and quantity of corn?

b. Suppose the prevailing price is $9 per bushel. Is there a shortage or a surplus in the market?

c. What is the quantity of the shortage or surplus?

d. How many bushels will be sold if the market price is $9 per bushel?

e. If the market price is $9 per bushel, what must happen to restore equilibrium in the market?

f. At what price will suppliers be able to sell 24,000 bushels of corn?

g. Suppose the market price is $21 per bushel. Is there a shortage or a surplus in the market?

h. What is the quantity of the shortage or surplus?

i. How many bushels will be sold if the market price is $21 per bushel?

j. If the market price is $21 per bushel, what must happen to restore equilibrium in the market?

Answer:
a. Equilibrium price = $15; Equilibrium quantity = 15,000 bushels.
b. There is a shortage.
c. Shortage = 22,000 − 9,000 = 13,000 bushels.
d. Quantity sold = 9,000 bushels.
e. Price must rise.
f. At $9 per bushel.
g. There is a surplus.
h. Surplus = 28,000 − 8,000 = 20,000 bushels.
i. Quantity sold = 8,000 bushels.
j. Price must fall.